

# Wisconsin Taxation of Pari-Mutuel Wager Winnings

## IMPORTANT CHANGES

There are no substantive changes since the last version of this publication.

### I. INTRODUCTION

The purpose of this publication is to address various questions about the taxation of pari-mutuel wager winnings and withholding of Wisconsin income tax from such winnings.

### CAUTION

The information in this publication reflects the interpretations by the Wisconsin Department of Revenue of laws enacted by the Wisconsin Legislature as of January 1, 2002. Laws enacted after this date, administrative rules, and court decisions may change the interpretations in this publication.

### II. TAXATION OF PARI-MUTUEL WAGER WINNINGS

**Federal:** Winnings from pari-mutuel wagering are considered gambling winnings and must be included in federal taxable income, regardless of the amount of the winnings.

**Wisconsin:** A *resident* of Wisconsin is taxed on all pari-mutuel wager winnings, whether the winnings are from Wisconsin racetracks or other racetracks.

A *nonresident* of Wisconsin is taxed on pari-mutuel wager winnings paid by a Wisconsin racetrack. However, a nonresident of Wisconsin must have Wisconsin gross income, including any winnings, of \$2,000 or more before the nonresident is required to file a Wisconsin income tax return and pay Wisconsin income tax on the winnings.

*Example 1:* You are a resident of Wisconsin and won \$50 from a pari-mutuel wager you made at a Wisconsin racetrack. The \$50 you won must be reported as taxable income on your federal and Wisconsin income tax returns.

*Example 2:* You are a resident of Wisconsin and won \$500 from a pari-mutuel wager you made at an Iowa racetrack. The \$500 you won must be reported as taxable income on your federal and Wisconsin income tax returns.

*Example 3:* You are a nonresident of Wisconsin and won \$500 from a pari-mutuel wager you made at a Wisconsin racetrack. You have no other gross income taxable by Wisconsin. Although the winnings are taxable for federal and Wisconsin income tax purposes, you are not required to file a Wisconsin income tax return and report the taxable winnings, because your Wisconsin gross income is less than \$2,000 for the year.

**Sharing of Pari-Mutuel Wager Winnings** For both federal and Wisconsin income tax purposes, two or more persons may share the winnings from a single wager. The persons may also share in the taxation of those winnings.

If two or more persons agree to share in any potential winnings from a pari-mutuel wager, the amount of the winnings is reportable as taxable income by the person or persons who “own” the wager ticket at the time the event (for example, dog race) that determines the winner takes place. To share in the taxation of any potential winnings, an agreement to share in winnings must be made **prior** to the start of the event that determines the winner.

An agreement to share in winnings made **after** the start of the event that determines the winner will preclude the persons from sharing in the taxation of such winnings.

**Note:** If questioned, you must be able to show to both the Internal Revenue Service (IRS) and the Wisconsin Department of Revenue that an agreement was made to share in the winnings before the start of the event that determined the winner.

*Example:* You and two of your friends agree to share equally in a pari-mutuel wager before the time the race begins. You and your friends win a total of \$1,500 from the wager. You and your two friends should each report \$500 ( $\$1,500 \div 3 = \$500$ ) as taxable income for each person's share of the winnings.

**Reporting the Sharing of Winnings to the Racetrack** If there was an agreement to share in the winnings (and the winnings are more than \$600 and at least 300 times the amount of the single wager), you must take the following steps to ensure that the winnings will be reported by the proper persons:

1. Obtain federal Form 5754, “Statement by Person(s) Receiving Gambling Winnings” from any IRS office. You may also download the form and instructions from the IRS's Internet web site at [www.irs.gov/](http://www.irs.gov/) or call 1-800-829-3676 to request them.
2. Fill in the information requested on the Form 5754.
3. Send Form 5754 to the racetrack that paid the winnings. It must be sent to the racetrack prior to December 31 of the year in which the winnings were paid.

Form 5754 informs the racetrack that two or more persons are sharing in the proceeds from a wager and indicates each person's share of the winnings. This information aids the racetrack in issuing separate information returns (Forms W-2G) indicating the amount of taxable income to each person sharing winnings, and

the amount of each person's share of income tax withheld, if any.

### III. DEDUCTIONS FOR PARI-MUTUEL WAGER LOSSES

**Federal:** If you claim itemized deductions, you may deduct on federal Schedule A (as a miscellaneous itemized deduction) the amount of pari-mutuel wager losses and other gambling losses you incurred during the year, but only up to the amount of gambling winnings you reported as taxable income. The miscellaneous itemized deduction is not subject to the 2% of adjusted gross income limitation. You must be able to prove the amount of your losses by receipt, ticket, or statement.

**Note:** If you claim the federal standard deduction, you are not allowed any deduction for gambling losses.

**Wisconsin:** Amounts allowed as miscellaneous itemized deductions on federal Schedule A, including pari-mutuel wager losses, may not be used in computing the Wisconsin itemized deduction credit. No deduction is permitted on the Wisconsin income tax return.

*Example:* You received a total of \$100 of pari-mutuel wager winnings, which you reported as taxable income. You had no other gambling winnings. You also lost \$200 in pari-mutuel wagering. On Schedule A for federal income tax purposes, you may deduct \$100 of pari-mutuel wager losses (limited to the amount of the winnings) as a miscellaneous itemized deduction. You may not use the \$100 miscellaneous itemized deduction in computing your Wisconsin itemized deduction credit.

### IV. CREDIT FOR TAXES PAID TO OTHER STATES

If you were a Wisconsin resident and paid income tax to another state or the District of

Columbia on winnings, you may be entitled to claim a credit for such income tax on your Wisconsin income tax return. To qualify for the credit, the winnings that were taxed by the other state must also be included in your Wisconsin income and be taxed by Wisconsin. For more information, see the instructions for Wisconsin Form 1.

### V. WITHHOLDING INCOME TAX FROM PARI-MUTUEL WAGER WINNINGS

Wisconsin income tax will be withheld from winnings of more than \$1,000 paid by a Wisconsin racetrack on a single wager. For purposes of the \$1,000 limit, winnings means the total winnings from a single wager, not each person's share of the winnings from that wager.

*Example:* You and two other people make a single pari-mutuel wager and agree to share in any potential winnings from that wager before the start of the race. You and your friends win a total of \$1,500 from the wager. Wisconsin income tax will be withheld from the total winnings, even though each winner's individual share in the winnings (\$500) is less than \$1,000.

In addition to the taxable amount of winnings reported on Form W-2G, Wisconsin withholding will also be shown, if applicable. If there was a sharing of the winnings that was reported to the racetrack, withholding will be shared in the same proportion and reported as such on Form W-2G.

Wisconsin income tax will be withheld at the highest rate that applies to individuals at the time of winning.

Although Wisconsin income tax will not be withheld from winnings of \$1,000 or less, the winnings are still subject to Wisconsin income tax.

### VI. ADDITIONAL QUESTIONS?

If you have any questions about the taxation of pari-mutuel wager winnings for federal income tax purposes, please contact the IRS (the IRS's telephone number is 1-800-829-1040).

If you have questions about the taxation of pari-mutuel wager winnings for Wisconsin income tax purposes, you may visit any Department of Revenue office or contact the department as follows:

By phone - (608) 266-2772

By mail - Wisconsin Department of Revenue  
Mail Stop 5-77  
PO Box 8949  
Madison WI 53708-8949

By e-mail - [income@dor.state.wi.us](mailto:income@dor.state.wi.us)